

**CITY OF COTTER, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2015 THROUGH JUNE 30, 2016**

# Table of Contents ---

<b>Officials .....</b>	<b>1</b>
<b>Independent Accountant's Report on Applying Agreed-Upon Procedures .....</b>	<b>2-3</b>
<b>Detailed Recommendations.....</b>	<b>4-7</b>

## Officials

---

Name	Title	Term Expires
<b>Officials</b>		
<b>(Before January, 2016)</b>		
Mark Jay	Mayor	December, 2015
Eric Juhl	Council Member	December, 2015
Joan Baird	Council Member	December, 2015
Ronald Baird	Council Member	December, 2015
Dwight Britton	Council Member	December, 2015
Rebecca Eustler	Council Member	December, 2015
Julie Heindel	City Clerk/Treasurer	Indefinite
<b>(After January, 2016)</b>		
Mark Jay	Mayor	December, 2017
Joan Baird	Council Member	December, 2017
Ronald Baird	Council Member	December, 2017
Dwight Britton	Council Member	December, 2017
Betty Phillips	Council Member	December, 2017
Rebecca Eustler	Council Member	December, 2017
Julie Heindel	City Clerk/Treasurer	Indefinite

## **Independent Accountant's Report on Applying Agreed-Upon Procedures —**

To the Honorable Mayor and  
Members of the City Council  
City of Cotter, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Cotter for the period July 1, 2015 through June 30, 2016. The City of Cotter's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Cotter, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Cotter, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cotter and other parties to whom the City of Cotter may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Waterloo, Iowa  
October 4, 2016

## Detailed Recommendations

---

## Detailed Recommendations

---

For the Period July 1, 2015 through June 30, 2016

- (A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts - opening mail, collecting, depositing, reconciling and posting.
- (5) Disbursements - purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (6) Payroll - recordkeeping, preparing, signing and distributing.
- (7) Financial reporting - preparing and reconciling.

**Recommendation** - We realize segregation of duties is difficult with one employee. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review. Additionally, a second individual should review and countersign checks prepared by the City Clerk.

- (B) **Management Financial Information** - A monthly City Clerk's report, including a summary of revenue, disbursements, transfers and ending balances by fund, is not prepared. In addition, a comparison of actual disbursements to budget by function was not prepared.

**Recommendation** - To provide better financial information, the City Clerk's monthly financial report should include the beginning balance, receipts, disbursements, transfers and ending balances for each fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk's monthly financial report to the City Council should also include comparisons to the certified budget by function.

- (C) **City Council Minutes** - The following were identified:

- (1) Chapter 21.3 of the Code of Iowa requires minutes to show information sufficient to indicate the vote of each member present. All three meetings tested did not show information sufficient to indicate the vote of each member present.
- (2) Chapter 380.4 of the Code of Iowa requires the passage of ordinances, amendments or resolutions by a majority vote of all the members of the City Council rather than a majority vote of a quorum of the City Council. All three meetings tested did not show information sufficient to determine that passage was by a majority vote of all the members of the City Council.

## Detailed Recommendations

---

For the Period July 1, 2015 through June 30, 2016

- (3) Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include a summary of receipts, a total of disbursements from each fund and a listing of each claim paid, along with the reason for each claim. For all three meetings tested, the minutes did not include a summary of receipts, total disbursements by fund or a complete list of claims paid and reasons for each claim.

**Recommendation** - The City should comply with Chapter 21.3 of the Code of Iowa by including information sufficient to indicate the vote of each member present. In addition, the City should comply with Chapter 380.4 and include information sufficient to determine that passage of ordinances, amendments or resolutions was by a majority vote of all the members of the City Council and not a majority vote of a quorum of the City Council. Lastly, the City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes within 15 days of a meeting and include a summary of receipts, a total of disbursements from each fund and a listing of each claim paid, along with the reason for each claim.

- (D) **Depository Resolution** - A resolution naming the official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

**Recommendation** - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council each year.

- (E) **Investments** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

**Recommendation** - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) **Bank Reconciliations** - We reviewed bank reconciliations and noted the following:

- (1) Bank reconciliations were performed monthly; however, a book balance is not kept, so we were unable to determine if the reconciliation was accurate. In addition, the bank statements do not have a month-end cut off, so reconciliations are performed mid-month and not at month end.
- (2) The bank reconciliations that were prepared were not reviewed by an independent person.
- (3) We were unable to trace reconciled balances to general ledger cash account balances and to monthly reports provided to the City Council because the City does not maintain a general ledger for cash accounts and monthly reports are not provided to the City Council.

**Recommendation** - To improve financial accountability and control, the City should maintain general ledger accounts for cash. Each month bank reconciliations should be performed and retained, and variances between book and bank balances should be investigated and resolved timely. The City should contact the bank to cut-off statements at month end. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.



## Detailed Recommendations

---

For the Period July 1, 2015 through June 30, 2016

(G) **Disbursements** - We reviewed 30 disbursements and the following were identified:

- (1) Invoices or other supporting documentation were not always available to support disbursements. Supporting documentation for 2 of 30 disbursements tested totaling \$815.00 could not be located.
- (2) All 30 disbursements tested totaling \$19,022.63 were not approved by the City Council.
- (3) The City does not use the Uniform Chart of Accounts (COA). Therefore, none of the disbursements tested were classified by function in accordance with the recommended COA.

**Recommendation** - All disbursements should be supported by invoices or other supporting documentation, and each invoice should be approved by the City Council. To provide better financial information and control, the recommended COA, or its equivalent, should be followed and all disbursements should be classified by function.

(H) **Certified Budget** - The City did not classify disbursements by function; therefore, we were unable to determine if disbursements by function were within the adopted budget.

**Recommendation** - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk should properly classify disbursements by function in accordance with the COA.

(I) **Chart of Accounts** - The City has not implemented the City Finance Committee's (CFC) recommended COA for Iowa City Governments approved by the CFC on September 25, 2002.

**Recommendation** - To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

(J) **Accounting Policies and Procedures Manual** - The City does not have an accounting policies and procedures manual.

**Recommendation** - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

(K) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

**Recommendation** - The City should obtain and retain images of both the front and back of canceled checks, for all accounts, as required by Chapter 554D.114 of the Code of Iowa.

## Detailed Recommendations

---

For the Period July 1, 2015 through June 30, 2016

- (L) **Local Option Sales Tax (LOST)** - The City had a copy of the most recent LOST ballot or revenue purpose statement, but the City does not use fund accounting or the recommended COA, so we were unable to determine if LOST receipts were expended as required by the ballot provisions.

**Recommendation** - The City should implement procedures to account for LOST disbursements to ensure LOST receipts are being used in accordance with the ballot by using fund accounting and implementing the recommended COA.

- (M) **Annual Financial Report (AFR)** - The AFR required to be filed with the State of Iowa for the fiscal year ended June 30, 2015 did not agree with the City's accounting records. Beginning governmental funds per the AFR did not agree to the City's records by \$194.

**Recommendation** - The AFR should be reconciled to the City's accounting records before it is filed.

- (N) **Financial Condition** - The City does not use fund accounting. In addition, only one bank account is used for the General Fund, Road Use Tax Fund and Local Option Sales Tax Fund. Therefore, we were unable to determine if the General Fund, Road Use Tax Fund or Local Option Sales Tax Fund had deficit fund balances.

**Recommendation** - The City should establish procedures to ensure fund accounting and a balance sheet are used to properly account for fund activity.

- (O) **Unused and Voided Checks** - The City does not maintain controls over the supply of unused or voided checks. In addition, the City does not store unused checks in a secure location to protect against theft or misuse.

**Recommendation** - The City should store checks in a secure location to ensure checks are protected from alteration and to ensure controls are maintained over unused or voided checks.

- (P) **Advanced Signing of Checks** - The City does not prohibit the advanced signing of checks.

**Recommendation** - The City should establish procedures to prohibit the advanced signing of checks.